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Message Text

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ACTION EUR-12

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C O N F I D E N T I A L USNATO 3436

E.O. 11652: GDS
TAGS: MPOL, PFOR, ECON, NATO
SUBJ: NATO STUDY OF SECURITY IMPLICATIONS OF THE ECONOMIC ISSUES

REFS: A. STATE 147621: B. USNATO 3290

SUMMARY: AT JUNE 25 MEETING NAC TOOK NOTE OF ECONOMIC COMMITTEE REPORT FOLLOWING HIGHLY FAVORABLE COMMENTS FROM MANY REPS. DE STAERCKE (BELGIUM) POINTED OUT IT ANSWERED QUESTIONS RAISED AGAIN AT THE SUMMIT BY NATIONAL LEADERS ON THE ECONOMIC ISSUES OF CONCERN TO THE ALLIANCE. HE URGED THE PERMREPS TO BRING THE REPORT TO THE ATTENTION OF THEIR GOVERNMENT. EVEN IF THE ANSWERS MIGHT SEEM UNPALATABLE FROM TIME TO TIME, AND EVEN IF THEY WERE HONORED MORE IN THE BREACH, THE WARNING WAS CLEAR THAT THE ECONOMIC MEASURES OF INDIVIDUAL COUNTRIES MUST NOT UNDERMINE THE ECONOMIES OF THE REST OF THE ALLIANCE. ITALIAN, GERMAN, UK, FRENCH, AND DUTCH ASSOCIATED THEMSELVES WITH BELGIAN COMMENTS, WHILE CANADIAN REP CONTINUED POSITION NOTED EARLIER IN SPC THAT REPORT IN SOME RESPECTS WAS TOO PEESSIMISTIC. AMBASSADOR BRUCE COMMENTED PER REF A. END SUMMARY.

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1. IN INTRODUCING DISCUSSION OF ECONOMIC COMMITTEE REPORT ON SECURITY AND POLITICAL IMPLICATIONS OF THE ECONOMIC SITUATION (NOW DOC C-M(75)40), SYG LUNS RECALLED THAT IT RESPONDED TO A COUNCIL REQUEST LAST JANUARY AND

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WAS ESPECIALLY TIMELY IN VIEW OF NAC SUMMIT DISCUSSION
OF ECONOMIC PROBLEMS IN THE ALLIANCE. HE CITED THE
SUMMIT COMMUNIQUE ON THIS POINT. HE ASLSO MENTIONED
VIEWS EXPRESSED IN SPC DISCUSSION THAT CERTAIN PARAGRAPHS
SEEMED TOO PESSIMISTIC BUT AGREED WITH SPC CHAIRMAN'S
COVER NOTE WHICH POINTED OUT THE CONDITIONAL NATURE OF
THESE PARAS. LUNS ALSO REMINDED NAC THAT ECONOMIC
COMMITTEE WILL BE PREPARING A FURTHER DETAILED REPORT
IN THE FALL ON ECONOMIC BALANCE BETWEEN THE WARSAW
PACT COUNTRIES AND THE ALLIANCE.

2. DE STAERCKE DESCRIBED THE REPORT AS AN EXTRAORDINARILY
IMPORTANT AND REMARKABLE ONE. IT ANSWERED THE QUESTIONS
NATIONAL LEADERS HAD RAISED DURING THE SUMMIT DISCUSSIONS
ON THE ECONOMIC PROBLEMS OF THE ALLIANCE. HE DID NOT
AGREE THAT IT WAS TOO PESSIMISTIC AND PRAISED PARTICULARLY
PARAS 5 (WHICH RAISES THE DANGER FOR ALLIANCE COHESION
OF BEGGAR-MY-NEIGHBOR POLICIES, INCLUDING PROTECTIONISM)
AND 7 (WHICH POINTS UP THE ADVSERSE IMPACT OF ECONOMIC
PROBLEMS ON ADEQUATE DEFENSE EXPENDITUES BY MEMBERS).
IN SHORT, HE DESCRIBED IT AS A "BRAVE ANSWER" WHICH GAVE
THE NECESSARY WARNING AND FOR THAT REASON URGED
COUNCIL MEMBERS TO BRING THE REPORT TO THE ATTENTION
OF THEIR GOVERNMENTS.

3. CATALANO (ITALY) SAID THE REPORT WAS OF EXCELLENT
QUALITY. CHARGE' ROY (CANADA) WHO HAD ORIGNALLY CRITICISED
PARAS 5, 6 AND 7 IN THE SPC, "TOOK NOTE" OF DE STAERCKE'S
COMMENTS AND SAID HE WOULD PASS THEM TO OTTAWA. HE DREW
ATTENTION TO THE ANOMALY OF EARLIER FORECASTS THAT
THE NORTH AMERICAN COUNTRIES, WHO HAD THEIR OWN OIL
RESOURCES, WOULD BE LESS AFFECTED THAN THE EUROPEAN
MEMBERS BY THE OPEC PRICE INCREASES. CITING TABLE 3 OF
THE REPORT'S ANNEX, HE POINTED OUT THAT THE US AND
CANADA ARE IN A LESS FAVORABLE BALANCE OF PAYMENTS
SITUATION THAN THE EUROPEAN ALLIES. FOLLOWING ON HIS
COMMENTS ON THE APAG REPORT ON EAST WEST TRADE AND CONTACTS
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IN THE PRECEDING AGENDAITEM (SEPTEL), ROY SUGGESTED
THAT REPORT BE CIRCULATED TO THE ECONOMIC COMMITEEE
FOR "REFERENCE".

4. CITRON (FRG) AGREED FULLY WITH DE STAERCKE, AND SAID
FRG WELCOMES CONTINUATION OF ECONAD STUDY.

5. CHARGE' DE LA FERRIERE (FRANCE) SAID HE AGREED WITH THOSE
WHO SAID THE REPORT WAS NOT TOO PESSIMISTIC; AND FULLY
SUPPORTED DE STAERCKE'S REMARKS. HE NOTED THE IMPORTANCE
OF THE OECD AGREEMENT AGAINST IMPOSING TRADE RESTRICTIONS
AS REMEDY FOR CURRENT ECONOMIC SITUATION.

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6. HARTOGH (NETHERLANDS) ALSO AGREED WITH THE REPORT, BUT SAID THAT PART B, IN SPITE OF ITS CAPITON, IS NOT, AND COULD NOT BE, AN "ECONOMIC OUTLOOK ANALYSIS" BECAUSE OF THE INABILITY OF EXPERTS CONCERNED TO AGREE ON THE FUTURE. IT WAS, HOWEVER, VALUABLE AS A HISTORICAL SUMMARY. ECONOMIC COMMITTEE CHAIRMAN BILLY ACKNOWLEDGED THAT THE REPORT DID NOT GIVE A LONG TERM PROJECTION. EVEN THE SHORT TERM PROJECTIONS WERE CAUTIOUS, BUT THE COMMITTEE HAD SOUGHT TO USE THE MOST RECENT FORE-CASTS AVAILABLE WHEN THE REPORT WAS DRAFTED. HE SAID THE COMMITTEE WOULD GO INTO MORE DETAIL IN THIS AREA IN THE FALL STUDY.

7. AT THE REQUEST OF THE MILITARY COMMITTEE REPRESENTATIVE, THE REFERENCE TO NATO HAVING "RELATIVELY MORE MEN UNDER ARMS WORLDWIDE" THAN THE WARSAW PCT WOULD BE DELETED SINCE THE LATTER HAD SOME 500,000 MORE MEN THAN NATO.

8. AMBASSADOR BRUCE COMMENTED PER REF A AND SAID HE WAS PARTICULARLY STRUCK BY THE ADVANTAGES RECOUNTED IN PARA 4 OF THE REPORT WHICH WARSAW PACT COUNTRIES HAVE, COMPARED WITH THE ALLIES, IN AVOIDING THE NEGATIVE IMPACT ON THEIR DEFENSE POSTURE WHICH THE WORLD ECONOMIC SITUATION IMPOSES ON THE NATO COUNTRIES. THIS WAS SECONDED BY LUNS, WHO ENDED THE DISCUSSION WITH A REMINDER THAT THE WARSAW PACT COUNTRIES WERE CONTINUING TO INCREASE THEIR MILITARY EXPENDITURES.

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9. PER PARA 5, REF A, DCM RAISED WITH FRG CHARRGE BOSS POSSIBILITY OF FRG'S PREPARING INITIAL DRAFT OF NEW PAPER ON OTHER ASPECTS OF EAST-WEST ECONOMIC BALANCE, FOR DISCUSSION IN ECONADS AND SUBSEQUENT CONSIERATION IN NAC SOMETIME IN FALL, ALONG WITH FURTHER NAC REVIEW OF ISSUES RAISED IN PRESENT REPORT. BOSS SAID HE WOULD CHECK WITH HIS AUTHORITIES AND LET US KNOW.BRUCE

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